

## BCBSNC Comments on Comprehensive Report *continued*

lines of business, and industry standards. (The other two audits were conducted by the North Carolina State Auditor and Thomas & Gibbs.)

In addition to what is required by the contract, BCBSNC has provided activity cost reports to the SHP. BCBSNC will continue to work with the SHP to provide the information the Plan needs.

Generally, the cost to administer a CMM plan is lower than the cost to administer three PPO plans. Direct comparison between the administrative costs of the State CMM and PPO plans is inappropriate for two key reasons: (1) the CMM plan had the benefit of 20 years of experience and system refinements, whereas the PPO plans were new and were introduced in an atypical environment; (2) the introduction of PPO products in October 2006 began a period of significant transition that lasted until the last SHP member migrated away from the CMM plan on June 30, 2008. The SHP held four Annual Enrollment periods during this 21-month time frame, and BCBSNC handled additional inquiries from SHP members who were not familiar with the PPO products. Additional complexity was introduced because the PPO plans were implemented in the middle of a benefit year (requiring transfer of deductibles, coinsurance, etc.). **However, despite all this, since the introduction of the PPO plans, the administrative cost of the PPO plans has steadily declined.**

Navigant highlights the only functional area (Utilization Management) that was above industry standard in administrative cost. However, it is important to note that Utilization Management services are more frequently used (14 percent of non-SHP compared to 40 percent SHP) by SHP members. Normalizing the current Utilization Management costs for the increased usage, BCBSNC actually compares better than industry standard. As expected, the new plans required more performance tracking, quality assessments, and greater focus in improving processes and systems. **Despite all this, BCBSNC's administrative cost was still better than 75 percent of benchmarked plans.**

### Performance in Information Technology, Claims Administration, and Membership Accounting

For Information Technology, there are two critical points that must be noted. First, BCBSNC provided estimates to the SHP of the cost prior to the implementation of the PPO plans. The actual cost of implementation fell within the estimated range. Second, the contract contemplated a shared systems model to minimize administrative costs to the SHP; to move away from that model (by allowing the SHP to unilaterally dictate systems changes) would result in substantial increases in administrative cost.

In 2006, at the request of the SHP, BCBSNC created a suite of three Preferred Provider Organization (PPO) products for the SHP in seven months – substantially faster than industry standard. To remain compliant with North Carolina law, BCBSNC has been required to maintain two separate claims processing systems since the suite of PPO products was first established for SHP members in 2006. This has resulted in higher staffing numbers and increased systems and administrative costs for the SHP. **However, despite this, Navigant found that “BCBSNC's overall IT costs trended below the 25<sup>th</sup> percentile in comparison to similar organizations.”**